

Message Text

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INFO OCT-01 ISO-00 OIC-02 AID-05 CEA-01 CIAE-00 COME-00

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OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01

DODE-00 PM-03 H-01 L-02 NSC-05 PA-01 PRS-01 SS-15

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INFO AMEMBASSY OSLO

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SUBJECT: EDRC ANNUAL REVIEW OF NORWAY, DEC 4

REFS: (A) OECD PARIS 28461

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1. SUMMARY. AT DEC 4 EDRC ANNUAL REVIEW OF NORWAY DISCUSSION CONCENTRATED ON EXTENT OF RISK OF SERIOUS WAGE-LED INFLATION IN NORWAY. NORWEGIAN REPRESENTATIVES AGREED RISK EXISTS AND THAT INSTRUMENTS AVAILABLE TO GON IN FACE SUCH DEVELOPMENT ARE LIMITED. HOWEVER, FELT THERE IS REASONABLE PROSPECT HOLDING INFLATION RATE TO MODERATE LEVELS WITH HELP MEASURES SUCH AS TAX RELIEF TO WAGE EARNERS. NORWEGIAN EXPERTS ACKNOWLEDGED THAT IS LOGICAL TO EXPECT FURTHER KRONER REVALUATION, BUT (HARDLY SURPRISINGLY) REFUSED TO PREDICT TIMING AND EXTENT ANY SUCH ACTION. END SUMMARY.

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2. GENERAL IMPRESSIONS: NORWEGIAN EXPERTS INDICATED COULD AGREE WITH OVERALL SUBSTANCE OF OECD SECRETARIAT'S DRAFT SURVEY (REF D). THEY AGREED WITH SECRETARIAT AND EDCR VIEW THAT RISK OF SUBSTANTIAL WAGE-LED INFLATION EXISTED, BUT FELT SUCH RISK LESS THAN IMPLIED IN DRAFT SURVEY OR BY QUESTIONS OF EDCR MEMBERS. GON BELIEVES WILL HAVE TO ACCEPT SOME INFLATION AS PART OF STRUCTURAL ADJUSTMENT TO NEW "OIL ECONOMY," BUT HOPE TO KEEP INFLATIONARY PRESSURES MODERATE THROUGH (A) POLICIES DESIGNED TO SOFTEN WAGE DEMANDS, E.G. PERSONAL INCOME TAX REDUCTION; (B) KRONER REVALUATION, AND (C) DELIBERATE GRADUALISM IN OIL RESOURCE DEVELOPMENT.

3. INVESTMENT: NORWEGIAN DELEGATION EXPECTS INVESTMENT BOOM TO TAPER OFF IN 1975 AS RESULT REDUCED INVESTMENT IN OIL EXPLORATION, INCREASED DIFFICULTIES FOR TRADITIONAL EXPORT INDUSTRIES AND PROGRAM OF FREEZING PART OF CORPORATE INCOME. INVESTMENT DEMAND CONTINUES STRONG IN INDUSTRIES SUCH AS PAPER, CHEMICALS AND FERRO ALLOYS, PARTLY DUE TO ENVIRONMENTAL REGULATIONS. GOVERNMENT IS IN CONTACT WITH MAIN CHEMICAL AND FERRO ALLOY PRODUCERS TO INDUCE POSTPONEMENT OF INVESTMENT PROJECTS, INCLUDING THROUGH EASING TIMING OF ENVIRONMENTAL REQUIREMENTS. FIRST PHASE OF OIL DEVELOPMENT INVESTMENT (EKOFISK) LARGELY COMPLETED AND NEW ACTIVITY WILL NOT PICK UP UNTIL AFTER 1976. PROGRAM OF FREEZING 20 PERCENT OF BEFORE-TAX INCOME OF LARGE CORPORATIONS WILL HELP DAMPEN DEMAND. THESE FUNDS WILL BE RELEASED TO INDUSTRY WHENEVER INVESTMENT BOOM "HAS COLLAPSED."

4. CONSUMPTION: BOTH EXAMINERS AND NORWEGIAN EXPERTS FOUND RELATIVELY LOW CONSUMPTION EXPENDITURES PUZZLING. HYPOTHESIS OFFERED BY NORWEGIAN DELEGATION IS THAT RISES IN REAL INCOME OF CONSUMERS OCCURRED ONLY LATE IN 1974 AND THAT TEMPORARY INCREASE IN SAVINGS WILL BE SPENT AS WAGE-EARNERS GET USED TO NEW INCOME LEVEL.

5. WAGE SITUATION: ACCORDING NORWEGIAN REPS, GON IS FOLLOWING POLICY OF FLEXIBLE INTERVENTION IN WAGE LIMITED OFFICIAL USE

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FORMATION PROCESS. MAIN WAGE AGREEMENTS NOW SET FOR 1975 AND NEW ROUND NOT UNTIL 1976, ALTHOUGH THERE WILL BE WAGE INDEX NEGOTIATIONS IN SEPT1975. WAGE DRIFT HAS BECOME IMPORTANT ELEMENT IN COST PRESSURE. DEPENDING UPON POLITICAL SITUATION IN TRADE UNIONS AND OTHER FACTORS, GON MAY OR MAY NOT ACTUALLY PARTICIPATE IN WAGE DETERMINATION. HOWEVER, AS GENERAL STANCE, GOVERNMENT INTENDS TO USE POLICY INSTRUMENTS AVAILABLE TO IT IN

ORDER TO MODERATE WAGE DEMANDS, INCLUDING (A) TAX CUTS
(NORWEGIAN EXPERTS STATED LABOR ACCEPTS REAL TAX CUTS
AS SUBSTITUTE FOR EQUIVALENT WAGE INCREASES), AND (B)
SUBSIDIES FOR ITEMS IN COST-OF-LIVING INDEX. FISCAL
DRAG GIVES ROOM FOR MANEUVER IN THAT IN A SENSE WITH
PROGRESSIVE TAX SYSTEM, INFLATION MAKES PERPETUAL ROOM
FOR ADDITIONAL TAX RELIEF. SOME EDRC EXAMINERS NOTED
NORWEGIAN CASE MAY BE PARTICULARLY FAVORABLE TO USE OF
INCOMES POLICY SINCE (A) INCOME DIFFERENTIALS RELATIVELY

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NARROW; (B) HIGH PROPORTION OF LABOR IS UNIONIZED, AND
(C) OIL REVENUES ENABLE GOVERNMENT TO GIVE SUBSIDIES
AND MAKE TAX CUTS. THUS, NORWEGIAN EXAMPLE NOT
NECESSARILY APPLICABLE TO OTHER COUNTRIES. ON IMMIGRA-
TION POLICY, GON EXPERTS INDICATED CAUTIOUS APPROACH
WITH FURTHER CONSIDERATION TO LIMITED TEMPORARY IMPORTA-
TION OF LABOR (WITHOUT FAMILIES) AFTER CURRENT ONE-YEAR

PAUSE.

6. MACRO-POLICIES: GON EXPERTS ADMITTED NORWAY NEEDED TO DEVELOP BETTER POLICY INSTRUMENTS ESPECIALLY IN MONETARY FIELD AND INTEND TO DO SO. DID NOT ELABORATE.

7. BALANCE-OF-PAYMENTS AND EXCHANGE RATE POLICY: WHILE EXPECTING BALANCE-OF-PAYMENTS DEFICIT IN 1975, NORWEGIAN DELEGATION SEES NO FINANCING PROBLEM. NORMAL BORROWING BY LOCAL GOVERNMENTS AND CORPORATIONS MAY BE SUFFICIENT TO COVER DEFICIT. IF NOT, GON MAY USE RESERVES AND/OR LIMITED OFFICIAL USE

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DECIDE TO BORROW ABROAD. EASING OF EXCHANGE CONTROL REGULATIONS HAS NOT BEEN STUDIED. KRONER REVALUATION IS PART OF GON'S POLICY AND LOGICAL EXPECT FURTHER STEPS IN THIS DIRECTION. HOWEVER, NORWEGIAN DELEGATION REFUSED TO INDICATE TIMING AND EXTENT OF ANY SUCH ACTION. INDICATED THAT REVALUATION IS PREFERRED METHOD OF STRUCTURAL ADJUSTMENT TO NEW "OIL ECONOMY," BUT THERE ARE LIMITATIONS TO ITS USE BECAUSE (A) POLITICAL PROBLEM OF HAMPERING TRADITIONAL EXPORT SECTOR, AND (B) RISK OF ENGENDERING SPECULATIVE CAPITAL INFLOWS IF REVALUATION ADOPTED AS STANDARD POLICY.
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